

**Statement of The Honorable Linda M. Combs  
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**Before the  
Subcommittee on Government Management, Finance and Accountability  
House Government Reform Committee  
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Chairman Platts, Congressman Towns, and Members of the Committee.

Thank you for the opportunity to appear before you to discuss the Financial Management Line of Business initiative (FMLOB). I am delighted to provide you with an overview of the FMLOB and explain how it supports our overarching objective of ensuring that Federal managers have accurate and timely financial information for decision-making.

In November 2005, on the 15<sup>th</sup> anniversary of the Chief Financial Officers (CFO) Act of 1990, I testified before this Subcommittee and described the progress that has been made in Federal financial management and the accomplishments of the hard working financial managers across the Federal Government. I spoke about a journey that began 15 years ago to become better stewards of the peoples' money. I observed that 15 years later we have a CFO community committed to strong financial leadership, committed to transparency in financial reporting, and committed to meeting the highest government financial reporting standards in modern memory. I also credited the Improving Financial Performance scorecard under the President's Management Agenda (PMA) as being instrumental in holding the CFO community accountable for accelerating, improving, and streamlining financial management processes.

As with every journey, we must use a roadmap to ensure we remain on course and are moving toward our destination as efficiently as possible. The Administration defines its roadmap using the standards of success that underlie the Improving Financial Performance initiative under the PMA. The standards of success are a limited number of clear, meaningful, and attainable financial criteria that every Federal agency must meet. Each standard (e.g., receiving an unqualified opinion on audited annual financial statements) is an indicator of financial management excellence. When the Administration evaluated the financial management roadmap, it found that agencies continue to struggle with the standard to implement financial systems that comply with laws and regulations. These systems are essential for capturing and reporting the financial results of the Federal Government.

Over the last 15 years, significant resources have been committed to implementing financial management systems. The Federal Financial Management Improvement Act of 1996 (FFMIA) requires that agencies have systems that comply substantially with Federal financial management system requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. Its purpose is to ensure that the Federal Government's financial systems can be implemented uniformly and continue to meet the information needs of the financial and programmatic communities. To assist in implementing new financial systems, the Financial Systems Integration Office (FSIO, formerly known as the Joint Financial Management Improvement Program) is responsible for core financial system requirements development, testing, and certification. Almost a decade after its passage,

the agency-heads of only nine of the 24 largest Federal organizations are able to certify that their financial systems substantially comply with FFMIA.

Looking at these results, this Administration believes more should be done to successfully implement compliant financial systems; more should be done to reduce the cost of investing in and operating financial systems; and more should be done to ensure that audit findings improve, rather than decline, after implementing these systems.

Through the FMLOB, the Administration believes that agencies will be equipped to make better investment decisions, improve implementation outcomes, and improve financial results.

## **FMLOB Overview**

Improving financial system investment decisions requires that agencies understand financial managers' information and business needs and know how to leverage technology for information delivery. To transform the Federal Government to one that is citizen-centered, results-oriented, and market-based, the Office of Management and Budget (OMB) is developing the Federal Enterprise Architecture (FEA), a business-based framework for government-wide improvement. Launched in February 2002, the FEA initiative is intended to identify opportunities to simplify processes and unify work across the agencies and within the lines of business of the Federal Government. The outcome will be a more citizen-centered, customer-focused government that maximizes technology investments to better achieve mission outcomes.

Building on the FEA, OMB announced in February 2004 that it would pursue efforts to improve efficiencies in a number of government-wide lines of business. This announcement also supported the PMA goal to expand electronic government. In March 2004, OMB launched five interagency task forces to perform a government-wide analysis of the identified lines of business, including financial management. The FMLOB task force examined opportunities to reduce the cost to government and enhance services through business performance improvements. The analysis suggested that the Federal Government could realize significant savings over a ten-year timeframe by consolidating financial systems and standardizing and optimizing the underlying business processes and functions.

The FMLOB vision and goals arose from this analysis. The vision is to improve the cost, quality, and performance of financial management systems by leveraging shared

service solutions<sup>1</sup> and implementing other government-wide reforms that foster efficiencies in Federal financial systems and operations. The goals include providing accurate and timely information for decision-making, facilitating strong internal controls, reducing costs, standardizing processes and information, and providing seamless data exchange among Federal agencies. The task force agreed to several principles that would guide the FMLOB vision: (1) agencies would formally analyze their alternatives to decide how to pursue shared service solutions and (2) the extent to which agencies adopt shared services may vary based on the analysis. For the agencies to achieve the FMLOB objectives, it is essential they perform the analysis in context of their financial landscape to determine what scope of shared service solution(s) provide the most benefits at the right cost and least risk. In summary, the FMLOB vision and goals apply to all agencies, yet how each agency meets the FMLOB objectives may vary.

To begin realizing these benefits, OMB asked agencies with the skills, capabilities, and interest to function as government-wide financial management service providers to submit business cases as part of the fiscal year 2006 budget process. These shared service providers would provide Federal agencies with alternatives to an in-house solution to better manage the risk, performance, and cost of implementing and operating financial systems. They would enable economies of scale by centrally locating or consolidating solution assets and leverage common subject matter expertise through common acquisitions, interface development, and application management. OMB evaluated the business cases using a due diligence checklist developed in conjunction with third-party industry groups. This checklist assessed potential service providers'

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<sup>1</sup> A shared service provider is an entity that provides services (e.g., financial management) to multiple organizations.

abilities in terms of past performance, current capabilities, adherence to Federal policy and regulations, and skill to operate a customer-focused organization. After reviewing the business cases, OMB designated four Federal agencies as eligible to compete as shared service providers.<sup>2</sup> The intention was that these agencies would also compete with private sector companies to provide these same services.

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<sup>2</sup> The four Federal agencies OMB designated as eligible to compete as shared service providers are the Bureau of Public Debt's Administrative Resource Center, the Department of Interior's National Business Center, the Department of Transportation's Enterprise Service Center, and the General Services Administration's External Services Division.

## **FMLOB Governance**

A significant improvement driven by the PMA's financial performance initiative has been its influence in unifying the government's CFOs and the larger CFO community. Namely, every CFO across the Federal Government now shares common goals for improving financial performance including producing "clean" financial statements, reducing material weaknesses, and implementing FFMIA compliant financial systems. In developing the FMLOB governance structure, we worked to ensure that the goals of the FMLOB and its stakeholders (i.e., sponsors, agencies, subject-matter experts) aligned with the goals and standards of success defined in the PMA. The governance structure is further built around the concepts of community and collaboration by drawing upon experts from within and outside government. This approach is intended to incorporate the most current thinking in financial systems and operations as well as to gain buy-in from the individuals, agencies, and commercial partners who are responsible for implementing the FMLOB vision.

The FMLOB governance structure is composed of three primary entities: OMB, FSIO, and the CFO Council FSIO Transformation Team. OMB is the FMLOB Executive Sponsor and, in conjunction with the CFO Council's FSIO Transformation Team, provides initiative oversight and guidance. The CFO Council coordinates the activities of the Federal agencies on matters including the consolidation and modernization of financial systems. A liaison from Chief Information Officers (CIO) Council is also represented on the CFO Council. The FSIO Transformation Team, currently chaired by the Department of Education, is responsible for coordinating CFO Council member input into the oversight and strategic direction of FSIO. This role includes identifying risk-

reduction approaches, like standardization or shared services, when acquiring, implementing, and operating financial systems. FSIO, whose goals include contributing to an increase in the number of agency FFMIA compliant financial systems, has been assigned the FMLOB project management responsibility under the direction of the CFO Council FSIO Transformation Team.

As the day-to-day managers of the FMLOB, FSIO coordinates several tasks to ensure that they are completed timely and meet the goals of the FMLOB. Tasks are staffed with full-time FSIO personnel, OMB personnel, and agency staff. Every CFO Act agency was invited to provide personnel to participate in these efforts. I am proud to say that every agency has delivered some of the most talented financial managers in the government to assist in this initiative. I cannot stress enough the importance of this collaborative approach. The CFO community has been extremely successful in delivering financial results since the Administration came to office. I am confident that they will deliver results to further the FMLOB vision. The governance model provides a solid foundation for future success by placing the responsibility of completing the projects with the full-time, dedicated, and accountable FSIO staff working in conjunction with the CFO and CIO communities.



## **FMLOB Current State**

Earlier, I mentioned that the agency-heads of only nine of the 24 largest Federal organizations have certified that their financial systems substantially comply with FFMIA. This number has increased since the Administration came to office and illustrates that agencies can successfully implement FFMIA compliant financial systems. However, many agencies continue to experience major challenges when implementing these systems. In some cases, agencies have been unable to implement their system. In other cases, agencies completed the implementations, but were delayed and costs were higher than originally estimated. And, unfortunately, in still other instances, agencies lost their “clean” opinions on their audited financial statements based on issues surrounding their system implementation. To avoid these consequences in the future, we must evaluate our current implementation approaches. We should look at where each agency is with respect to implementing a financial system and assess how we can reduce risk and increase the likelihood of success.

There is a wide spectrum of where agencies are in their financial system lifecycle and each agency must analyze its individual situation with respect to the FMLOB objectives. For example, the Social Security Administration, who is in a post implementation steady-state, would likely have a different plan to meet the FMLOB objectives than the Environmental Protection Agency (EPA) who is in the process of determining what solution it will implement. Other organizations, like the Departments of Health and Human Services, Justice, and Labor, who have either recently started or in the middle of their implementations would also have different set of risks that they must evaluate against the FMLOB objectives. In short, we must avoid falling into the trap of

assuming there is a one-size fits all solution. It is clear, however, that we need to provide additional financial system options to improve the likelihood of implementation success, reduce investment risk, reduce lifecycle costs, and improve audit results.

## **FMLOB Projects**

The FMLOB is about improving and changing financial management systems and operations. As Federal agencies implement the FMLOB vision, we must remember that many public and private sector organizations have successfully standardized their business processes and migrated to shared service solutions. As the former CFO at the Department of Transportation (DOT) and EPA I understand the challenges one faces when changing financial management practices. However, I also recognize the benefits of change when it advances the broader goals and objectives of a citizen-centered government. For example, in the year 2000, 12 of DOT's 14 Operating Administrations independently managed their own accounting offices. At the time, DOT was in the process of implementing its new financial system, Delphi, which would be hosted at its Enterprise Service Center in Oklahoma City, a shared service provider. To strengthen internal controls, ensure integrity in accounting operations, and reduce cost, DOT also decided to consolidate its accounting offices in Oklahoma City. To date, DOT has consolidated 11 accounting offices and plans to have all 14 completed by the end of fiscal year 2007. This transformation has not been easy for DOT, but most would agree that the benefits of having stronger controls, lower cost, and more predictable risks are worth the investment.

The Administration is looking for opportunities for every Federal agency to realize similar benefits and believes that this can be achieved through the FMLOB. However, we will not achieve the FMLOB vision unless we have a firm foundation for future success. To ensure that the FMLOB vision and goals had not changed, this past fall I assembled a working group comprised of personnel from OMB, the CFO Council,

and FSIO to validate the work performed by the interagency task force in 2004. The working group reviewed historical material on the FMLOB and JFMIP; held a series of forums with vendors, shared services providers, and the General Accountability Office; and gathered information and feedback from the CFO and CIO communities on possible FMLOB deliverables and work products. The previous work was validated and we were also able to incorporate lessons learned from other E-gov initiatives into our material. This past December, I issued a memorandum to update CFOs on status of the FMLOB. The memorandum was also made available to the general public. In it, I described the FMLOB vision, goals, and framework.

The FMLOB framework is comprised of three areas: transparency and standardization, competitive environment and seamless data integration, and results. The framework's foundation is built upon having additional transparency and standardization in agency financial systems and operations. For transparency, agencies need to understand what it really costs to implement systems and run their financial organizations. Agencies need to evaluate the costs, benefits, and risks of the various alternatives for supporting financial management systems and operations. Agencies also need guidance and tools to educate themselves on the possible shared service options as well as to prepare for and manage financial systems and operations under a shared service alternative. FSIO currently has two projects underway to bring more transparency into our financial activities. The first is to identify standard cost, quality, and timeliness metrics to benchmark and compare available options. The second is to prepare additional migration guidance, including service level agreements, which outline provider and client responsibilities. Both projects are scheduled to complete their initial work by March 31.

Agencies also need to improve their cost and risk management practices when migrating to a new system or consolidating operations. To facilitate migration success, agencies have to further standardize their business processes, interfaces, and data. Specifically, the Federal Government should reduce the data and process variability within and among Federal agencies and adopt its own best practices and processes. Because of this variability, Federal agencies increase the risks and costs of implementing and maintaining their financial management systems and operations. The benefits that the Federal Government realizes through standardization should be similar to the benefits the commercial world has obtained in adopting world-class business processes. FSIO currently has two projects underway to bring additional standardization to our financial activities. The first is to develop government-wide common business rules, data, and policies for funds management, accounts payable, accounts receivable, and reporting. The second is to develop a uniform accounting code structure and definition that all Federal agencies will adopt.<sup>3</sup> These projects are scheduled for completion early this fall.

The Administration believes that through additional transparency and standardization, there will be more competitive alternatives for financial systems and operations and we will create an environment where financial data can be more easily compared and aggregated across agencies. Many believe that the FMLOB is about contracting-out all agency financial systems and operations to shared service providers. I am here to say that contracting-out is only one competitive alternative that is available under the FMLOB vision. What ultimately matters is that agencies make smarter

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<sup>3</sup> The timeline to define a government-wide accounting structure is provided separately.

business decisions, we improve government-wide stewardship and accounting, and there is more accurate and timely data for decision-making.

## **FMLOB Closing**

I began my testimony by stating that during any journey, we need to periodically review our roadmap to remain on the right track. During its review of the government's financial management initiatives and priorities, the Administration concluded that more must be done to advance the objective of having accurate and timely financial information for decision-making, particularly with respect to implementing financial systems. The FMLOB is our opportunity to strengthen how we select, implement, and operate the government's financial systems. By doing so, the Administration is asking that agencies consider the investment risks, implementation risks, and lifecycle costs when they perform their analysis. To ensure we remain on the right track, we must share feedback on our progress more often, develop and refine our plans more strategically, hold ourselves more accountable for outcomes, and, as with the FMLOB, identify more options that deliver results. Be assured that as we chart this path, it will be based on analysis that will determine the appropriate course and timetable for each individual agency. As with any new initiative, there will always be some level of uncertainty. Rest assured that I will continually work to overcome the barriers of uncertainty to open roads of opportunity.